



**CNBM**

**China National Building Material Company Limited\***

**中國建 材 股 份 有 限 公 司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability of its members)*

(Stock Code: 3323)

**CHINA NATIONAL BUILDING MATERIAL COMPANY LIMITED\***  
**TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF**  
**THE BOARD OF DIRECTORS**

**CONTENTS**

**Terms of Reference of the Audit Committee of the Board of Directors of China National Building Material Company Limited\***

Chapter 1	General Provisions
Chapter 2	Organisation
Chapter 3	Duties and Authorities
Chapter 4	Access to Resources
Chapter 5	Rules of Procedure
Chapter 6	Supplementary Provisions

# CHINA NATIONAL BUILDING MATERIAL COMPANY LIMITED\*

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

### CHAPTER 1 GENERAL PROVISIONS

**Article 1** In order to further establish and complete the financial oversight, risk management and internal control systems and improve the corporate governance structure of China National Building Material Company Limited (the “**Company**”), the Company sets up the audit committee (the “**Audit Committee**”) under the board of directors (the “**Board**”) and formulates these terms of reference (the “**Terms of Reference**”) in accordance with *the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China*, the listing rules of stock exchanges on which the Company’s shares are listed (the “**Listing Rules**”), *the Articles of Association of China National Building Material Company Limited\** (the “**Articles of Association**”) and other relevant regulations.

**Article 2** The Audit Committee is a special working body set up by the Board according to the resolution of the shareholders’ general meeting of the Company and is responsible to the Board, and its proposals shall be submitted to the Board for consideration and approval. Unless otherwise provided by law and regulations or the Articles of Association, the Audit Committee shall perform its duties in accordance with the Terms of Reference.

### CHAPTER 2 ORGANISATION

**Article 3** The Audit Committee comprises solely non-executive directors with at least two independent directors and one of the independent directors shall possess appropriate professional qualifications, accounting or related financial management expertise. The quorum of the Audit Committee shall be three members.

- Article 4** The members of the Audit Committee shall be nominated by the chairman of the Board after taking into consideration the recommendation of the nomination committee of the Board and shall be appointed by the Board. A former partner of the Company's current audit firm shall not be a member of the Audit Committee for a period of two years since the following date (the later date shall be adopted):
- (a) when he/she cease to be a partner of the said audit firm; or
  - (b) when he/she no longer has any financial interest in the said audit firm.
- Article 5** The Audit Committee shall have one chairman who is an independent director and shall be nominated by the chairman of the Board and appointed by the Board.
- Article 6** The term of office of the members of the Audit Committee shall be the same as that of the directors. The members are eligible for re-election upon expiration of their term of office. During the term of office, any member of the Audit Committee who no longer maintains his or her position as a director shall automatically lose his or her membership as a member of the Audit Committee and the replacement shall be appointed by the Audit Committee in accordance with Articles 3 to 5 above.
- Article 7** The Audit Committee shall have a secretary who shall be the secretary of the Board. Full minutes of Audit Committee meetings should be kept by the secretary of the Audit Committee. Draft versions of minutes of the Audit Committee meetings shall be sent by the secretary of the Audit Committee to all members of the Audit Committee within three working days after each meeting for their comment and final minutes within fourteen days for their confirmation.
- Article 8** Except for directors' remuneration and expense paid on behalf of the Company, the members of the Audit Committee may not receive, whether directly or indirectly, any consulting and advisory fees or other compensation from the Company for such membership.

**Article 9** The finance department, audit department and legal compliance department are the daily working bodies of the Audit Committee, and shall be responsible for providing relevant information and services in a timely, complete and truthful manner.

**Article 10** The duties of the daily working bodies include but are not limited to:

- (1) to review the daily operation of the Audit Committee;
- (2) to arrange meetings of the Audit Committee and responsible for the meeting records (they should make detailed recording of the matters considered and decisions reached at the meetings, including any doubts raised or objections expressed by the directors), and submit to the secretary of the Audit Committee for circulation and record;
- (3) responsible for the preparation work for the decision making of the Audit Committee, to review the materials submitted to the Audit Committee for consideration and to ensure that management submits reports and meeting documents to the Audit Committee in an appropriate manner;
- (4) to report the work of the Audit Committee to the Board upon authorization from the chairman of the Audit Committee;
- (5) to coordinate and arrange members of the Audit Committee to attend or observe relevant meetings of the company and conduct investigation and research work;
- (6) to assist the members of the Audit Committee to obtain relevant information and demand the management to provide relevant information and materials;
- (7) responsible for the coordination of the Audit Committee and other committees of the Board;
- (8) other duties as designated by the Audit Committee.

## CHAPTER 3 DUTIES AND AUTHORITIES

### Article 11

The duties and authorities of the Audit Committee are as follows:

- (1) to make recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor, and to advise the Board on the remuneration and terms of engagement of the external auditor as well as any matters relating to the resignation or dismissal of the external auditor;
  1. When reappointing certified public accountants for annual audit of the following year, the Audit Committee shall form a comprehensive and objective evaluation on their completion of audit work and the quality of their practice in the current year. Any positive opinion of the Audit Committee shall be submitted to the Board for consideration before being submitted to the shareholders' general meeting for approval; should any negative opinion be formed, the Audit Committee should propose the appointment of new certified public accountants.
  2. When changing the appointment of certified public accountants for the annual audit of the following year, the Audit Committee shall obtain comprehensive understanding and perform a proper evaluation on the previous certified public accountants and those to be appointed through face- to-face communication. The opinion formed by the Audit Committee shall be submitted to the Board for consideration and approval before being submitted to the shareholders' general meeting for approval.
  3. The Audit Committee shall pay special attention to any change of certified public accountants for annual audit during the audit period of annual reports. In principle, the Company is not allowed to change the certified public accountants for annual audit during the audit period of annual reports. Should such a change becomes necessary, the Audit Committee shall meet the previous certified public accountants for the annual audit and those to be appointed, give a reasonable evaluation on the quality of practice of both parties and express an opinion on the basis of judgment on the sufficiency of

the reasons for a change of certified public accountants by the Company. A proposal shall be submitted to the shareholders' general meeting for approval after being considered and approved by the Board. The certified public accountants for annual audit who are proposed to be removed shall be notified and they may make written and/or verbal representations at the shareholders' general meeting. The Company shall include any written representations of the certified public accountants for annual audit who are proposed to be removed in the relevant circular to be sent to the shareholders.

- (2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; The Audit Committee should discuss with the external auditor the nature and scope of the audit and the reporting obligations before the audit commences, and if more than one audit firm is engaged, ensure the mutual coordination among such audit firms. The Audit Committee shall establish the following procedures to review and monitor the independence of external auditors:
  1. consider all relationships between the Company and the audit firm (including the provision of non-audit services);
  2. seek from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners and staff; and
  3. meet with the external auditor, at least annually, in the absence of management, to discuss matters relating to audit fees, any issues arising from the audit and any other matters the auditor may raise.

(3) to develop and implement policy on the engagement of an external audit firm (including its connected (related) parties) to supply non-audit services and advise the Board in respect thereof. For this purpose, a connected party of the external audit firm shall include any entity that is under common control, ownership or management with the external audit firm, or any entity that a reasonable and fully informed third party having knowledge of all relevant information would reasonably conclude as part of such external audit firm nationally or internationally. The Audit Committee should ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. With regard to the non-audit services, the Audit Committee shall consider:

1. whether the skills and experience of the external audit firm make it a suitable supplier of the non-audit services;
2. whether there are safeguards in place to ensure that there is no impairment to the objectivity and independence in the conduct of the audit work by the external auditor resulting from its provision of such non-audit services;
3. the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm; and
4. the criteria which govern the compensation of the individuals performing the audit.

The Audit Committee should report to the Board on any matters in respect of which action or improvement is needed and make relevant recommendations;

(4) to monitor the integrity of the Company's financial statements, annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review the statements and any significant financial reporting opinion contained in them, as well as to review the disclosure of the Company's financial information. The principal forms of supervision on the preparation of annual reports, interim reports and quarterly reports include:

1. liaising with the certified public accountants for determining a time table for the audit;
2. monitoring the certified public accountants to ensure they submit their audit report or review report within the agreed period;
3. the Audit Committee shall enhance the communication with the certified public accountants for the annual audit upon their participation;
4. the Audit Committee shall resolve on the completed financial audit report or review report, and form a resolution for submission to the Board for review. In this regard, in reviewing the Company's accounts and reports before their submission to the Board, the Audit Committee shall focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) whether or not in compliance with accounting standards; and
  - (vi) whether or not in compliance with the Listing Rules (especially those relating to financial reporting) and legal requirements.



Regarding item (4) above:

- (i) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's external auditors; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and account sand should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (5) to discuss with the external auditor about issues and areas of concern arising from the audit on half-year and full-year accounts and any other matters the auditor may wish to discuss (in the absence of management if necessary).
- (6) to promote the establishment of the Company's rule of law and guide the construction of the Company's risk management system, internal control system and compliance management system; to review the Company's (including its subsidiaries') financial control, risk management (including but not limited to risks relating to environmental, social and governance), compliance management and internal control (including all material internal control aspects, such as finance, operation, etc.) systems, and examine and evaluate whether relevant systems are sufficient and effective and their implementation status. If the annual report contains statements related to the risk management and internal management systems of the Company, it should be reviewed before presented to the Board for approval.
- (7) to discuss with the management regarding the scopes and quality of the systems of risk management, compliance management, accountability work for illegal operation and investment and internal control, and ensure that management has discharged its duty to have effective internal control system. The discussion should at least include matters required to be reviewed annually by the section D.2 in the Corporate Governance Code in respect of risk management and internal management systems, including but not limited to the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

- (8) to consider any major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response thereto.
- (9) The Company has in place an internal audit function. The Audit Committee shall review internal audit plan and ensure co-ordination between the internal and external auditors, ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor the effectiveness of the internal audit function.
- (10) to review the operating, financial and accounting policies and practices of the Company (including its subsidiary companies).
- (11) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action. Employees of the Company and any other persons who have dealings with the Company, including but not limited to customers and suppliers, may make complaints and reports to the Audit Committee through lawful channels regarding fraud and possible misconducts in related accounting and audit, risk management, internal control or other aspects.

The aforementioned term fraud refers to the behaviour of internal and external personnel using deception or other illegal means to harm the Company's interests or seek improper corporate or personal interests, including but not limited to:

- (a) acting fraudulently in making financial statements and information disclosure, such as intentionally or by gross negligence misrepresenting or intentionally omitting information in relation to statistics, transactions or other material matters in the financial statements, choosing inappropriate accounting policies and accounting estimates to manipulate profits etc.;

- (b) embezzling or misappropriating the Company's assets by way of unauthorised acts, abuse of power or other unlawful conducts, such as embezzling, stealing, defrauding or taking possession of the Company's property by other means etc.;
  - (c) taking advantage of business activities to improperly gain profits, such as offering and accepting bribes, inducing bribes, and withholding the Company's income for personal investment etc.;
  - (d) other improprieties in relation to fraud.
- (12) The Audit Committee shall, jointly with the Board, set up the Company's policies relating to the hiring of employees or former employees of the external auditors and monitor the application of such policies. The Audit Committee should consider whether such policies have impaired or appeared to impair, the external auditor's judgment or independence in respect of the audit.
- (13) to act as the key representative body for overseeing the Company's relation with the external auditor.
- (14) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or control systems and management's response.
- (15) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- (16) to report to the Board in respect of all the matters under its responsibility, including the circulation by the secretary of the Audit committee of meeting minutes and reports of the Audit Committee to all members of the Board.
- (17) to formulate and review the corporate governance policy and practices of the Company and make recommendations in respect thereof.

- (18) to review and monitor the training and continuous professional development for directors and senior management.
- (19) to review and monitor the policy and practices of the Company in respect of compliance with laws and regulatory requirements.
- (20) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company.
- (21) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.
- (22) to consider other topics, as defined by the Board.

#### **CHAPTER 4 ACCESS TO RESOURCES**

##### **Article 12**

The Audit Committee is entitled to make any investigation within its terms of reference. The Audit Committee may seek from any employees and consultants of the Company any information necessary for its investigations and all employees and consultants shall cooperate with any request made by the Audit Committee. The executive directors of the Company should ensure that the Audit Committee has access to any information necessary for its investigations and that all resources required by the Audit Committee during its discharge of duties are available.

##### **Article 13**

The Audit Committee is entitled to seek professional advice from external legal or other independent experts and consultants, and invite outsiders with appropriate relevant experience and expertise to attend its meetings if it considers this necessary. The Audit Committee may engage lawyers, investment banks, accountants or other professionals to advise on its duties as set out in the Terms of Reference, at the Company's expenses as and when necessary.

## **CHAPTER 5 RULES OF PROCEDURE**

- Article 14** Accountants, financial controller and head of internal audit department of the Company and representative of external auditor should attend the Audit Committee meetings. Other members of the Board are entitled to attend the meetings, provided that the Audit Committee should hold at least two meetings with external and internal auditors in the absence of executive directors each year.
- Article 15** the Audit Committee should hold at least two meetings each year and notify all members one week prior to the convening of meeting. The external auditor may request to convene a meeting as and when it deems necessary. Prior to the finalisation of interim and annual financial reports, the Audit Committee must hold meetings to discuss the issues involved in these reports and matters falling within its terms of reference.
- Article 16** The meetings of the Audit Committee shall be chaired by its chairman. Where the chairman cannot attend a meeting due to certain reasons, he or she may appoint another member (being an independent director) to preside over the meeting. In the event that the chairman fails to appoint his/her proxy, other members of the Audit Committee may elect one independent director to preside over the meeting.
- Article 17** Audit Committee meeting may only be held with the attendance of over half of the members; each member shall have one vote; resolutions of the Audit Committee meeting shall be passed by over half of all members.
- Article 18** An Audit Committee meeting may be held by way of an on-site meeting, video, telephone or facsimile, etc.
- Article 19** Voting at Audit Committee meetings may be conducted by raising hands (in case of on-site meetings) or by faxed signatures (in case of meetings held through communication tools).
- Article 20** Audit Committee meetings should have minutes signed by all attending members and the person who takes the minutes. The meeting minutes should be kept by secretary of the Board in such method and for such period as applicable to the documentation of the Board.

- Article 21** Resolutions passed by and voting results of Audit Committee meetings shall be reported to the Board in writing.
- Article 22** Members attending the meeting shall be obliged to keep all matters discussed confidential, and shall not disclose the relevant information without authorisation.
- Article 23** Meeting convener or other member of the Audit Committee is authorised to carry out the implementation of resolutions of Audit Committee meetings should give a written or verbal report to the Audit Committee on relevant matters during the implementation period and, when necessary, ratify or report relevant matters at next meeting of the Audit Committee.
- Article 24** Members of the Audit Committee shall voluntarily abstain when dealing with matters stipulated in the Terms of Reference which involves their own interests or may prejudice the Company's interests.

## **CHAPTER 6 SUPPLEMENTARY PROVISIONS**

- Article 25** In the event of any matters not addressed in the Terms of Reference, relevant laws, administrative regulations and rules of the PRC, the Listing Rules and the Articles of Association shall prevail. In case of any conflicts between the Terms of Reference and the laws, administrative regulations and rules promulgated in the future by relevant departments or institutions of the PRC, the Listing Rules or the lawfully amended Articles of Association, the laws, administrative regulations and rules promulgated in the future by relevant departments or institutions of the PRC, the Listing Rules and the Articles of Association shall prevail. Corresponding amendments to the Terms of Reference shall be made and submitted to the Board for consideration and approval.
- Article 26** The Terms of Reference are subject to the interpretation by the Board of the Company.
- Article 27** The Terms of Reference shall take effect upon being considered and approved by the Board.

*If there is any discrepancy between the English version and the Chinese version in respect of this document the Chinese version shall prevail.*

\* For identification purposes only